



Overview of the Distilled Spirits Industry

Presented by

**Chris Thiemann, Regulations and Rulings Division and
Dave Bateman, Trade Analysis and Enforcement Division**



- TTB and the Distilled Spirits Industry
- Makeup of the Distilled Spirits Industry
- Current Industry Trends

TTB and the Distilled Spirits Industry

**Chris Thiemann
Regulations and Rulings Division**

- TTB's role in regulating the distilled spirits industry
- DSP regulations and rulemaking updates
- This week's agenda



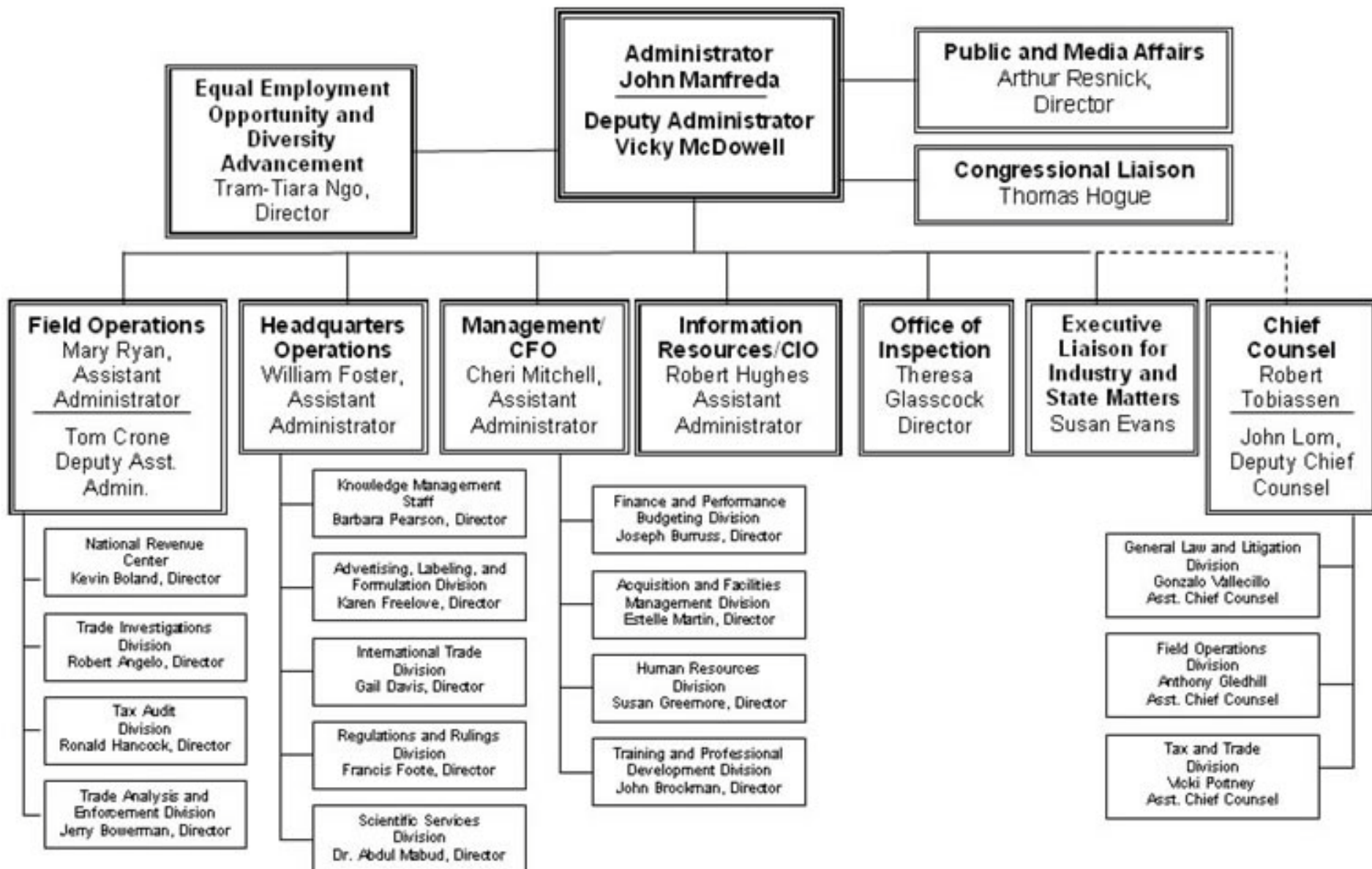
TTB's Role

- Qualifying manufacturers of beverage and industrial distilled spirits, producers of alcohol fuel, dealers of specially denatured alcohol, importers and wholesalers
- Protecting the revenue (26 U.S.C. 5001)
- Ensuring consumer protection (27 CFR part 5).
- Ensuring fair trade practices (27CFR part 5)
- Conducting quality audits and investigations

TTB's Role (Continued)

- Assisting industry members in understanding Federal laws and regulations as they relate to the industry
- Assisting industry members in achieving compliance and satisfying tax liability
- Processing MNBP drawback claims

TTB Organization



DSP Regulations

- Permits
- Physical characteristics of DSPs
- Recordkeeping
- Standards of identity
- Labeling
- Removal from bonded premises

DSP Regulations (Continued)

- Industrial distilled spirits:
 - Specially Denatured Alcohol (SDA)
 - Completely Denatured Alcohol (CDA)
 - Manufacturers of Nonbeverage Products (MNBP)
 - Alcohol Fuel Plants
 - Users of Tax-Free Alcohol



Rulemaking Updates

- Part 19
- Cachaça
- Serving Facts



- About TTB
- Advertising
- Careers
- EEO
- FAQs
- FOIA
- Forms
- Formulation
- Importers
- International Trade
- Labeling
- Laboratory
- National Revenue Center
- Student Research
- Trade Practices
- Wholesalers
- Language Links
 - En Español
 - En Français
 - 英語
- Get Adobe Acrobat Reader

Class is in Session!

Members of the wine industry can now learn everything they need to know about keeping their operation compliant with TTB's new Wine Online Seminar. Best of all, you can attend from anywhere, and there's always a spot waiting for you! [Click here.](#)

News and Events

[E-mail Updates](#)

- [TTB Settles Trade Practice Investigations](#) (01/14/09)
- [Report of Wine Premises Operations Form 5120.17 Must be Filed Regularly](#) (12/16/08)



[View Calendar](#)

[News & Events Archives](#)

Information By Topic

Contracting Opportunities

- [TTB Solicitations](#)
- [Small Business Program](#)
- [Vendor Express Program](#)

Electronic Reading Room

- [Frequently Requested Listings](#)
- [Administrative Actions](#)
- [Industry Circulars](#)
- [TTB Terms Glossary](#)

Labeling

- [COLAs Online](#)
- [Public COLA Registry Search](#)

Laws & Regulations

- [United States Code](#)
- [Code of Federal Regulations](#)
- [Notices of Proposed Rulemaking](#)

Media and Congressional Affairs

- [Press Releases](#)
- [Speeches and Testimonies](#)
- [News Archives](#)

Permits

- [Informational and Application Packets](#)
- [Exporting Alcohol](#)

NEW [New Visitors Guide](#)



Research Resources

- [Statutes](#)
- [Regulations](#)
- [Rulings](#)
- [Procedures](#)
- [Industry Circulars](#)

Public Information



Want BIG Text?

The Distilled Spirits Industry

Dave Bateman
Trade Analysis and Enforcement Division

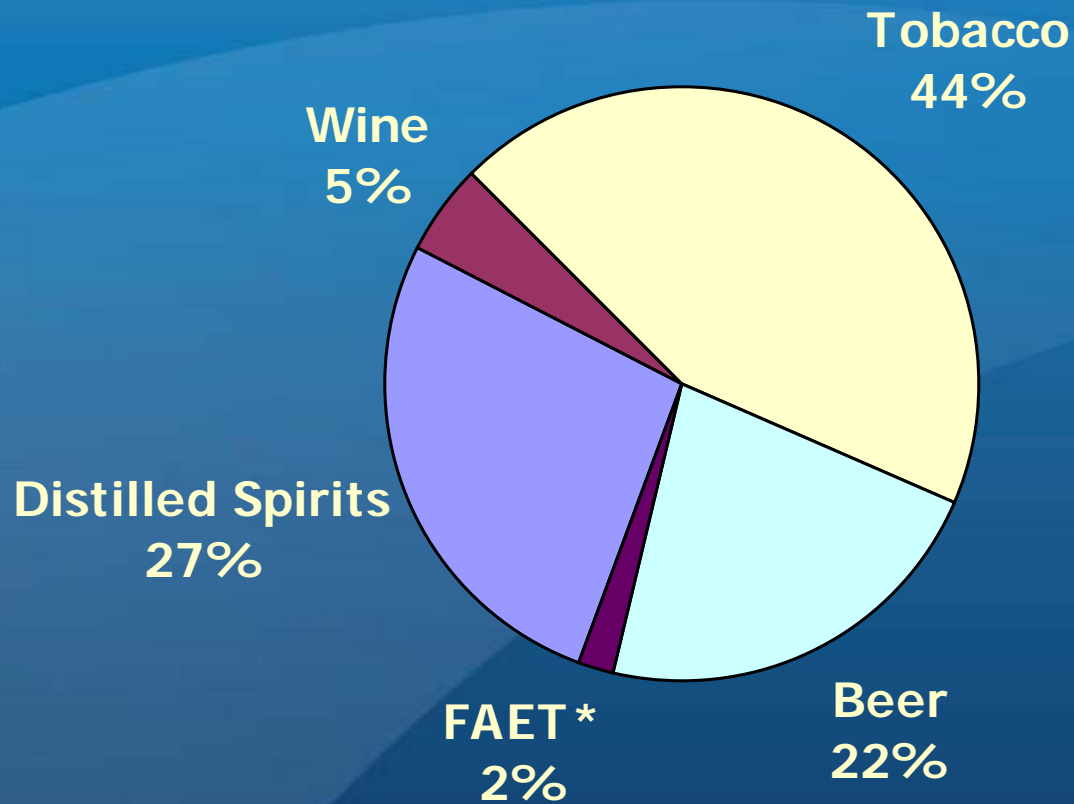


The Distilled Spirits Industry

- The beverage alcohol industry in the U.S. contributed almost \$448 billion to U.S. economic activity in 2006
- 29% (\$131 billion) was from distilled spirits

All Excise Tax Collections (Domestic and Imported)

Fiscal Year ending September 30, 2008

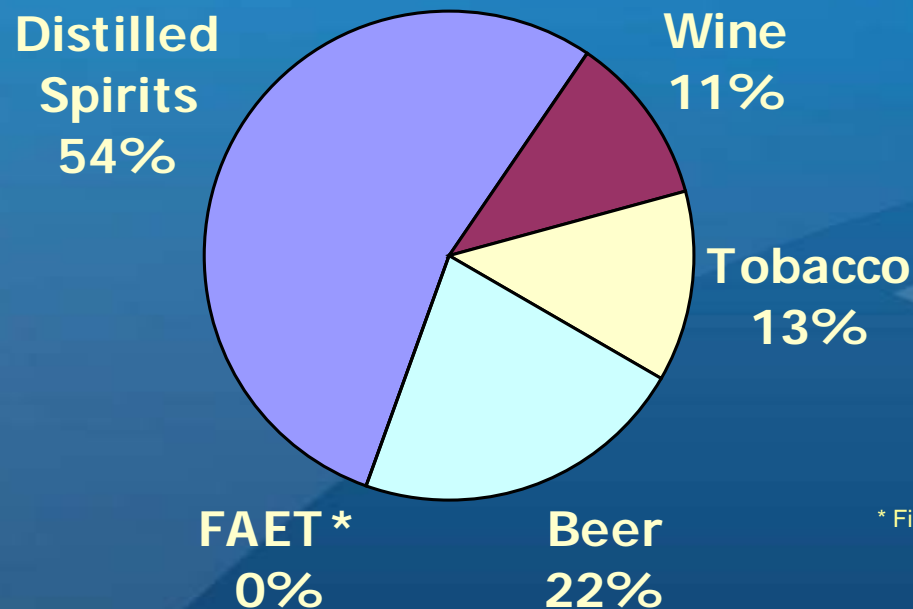


* Firearms and Ammunition Excise Tax

Tobacco is top tax category; Distilled spirits account for 27% of collections.

Excise Tax Collections for Imported Cased Goods, Taxes Collected by CBP

Fiscal Year ending September 30, 2008



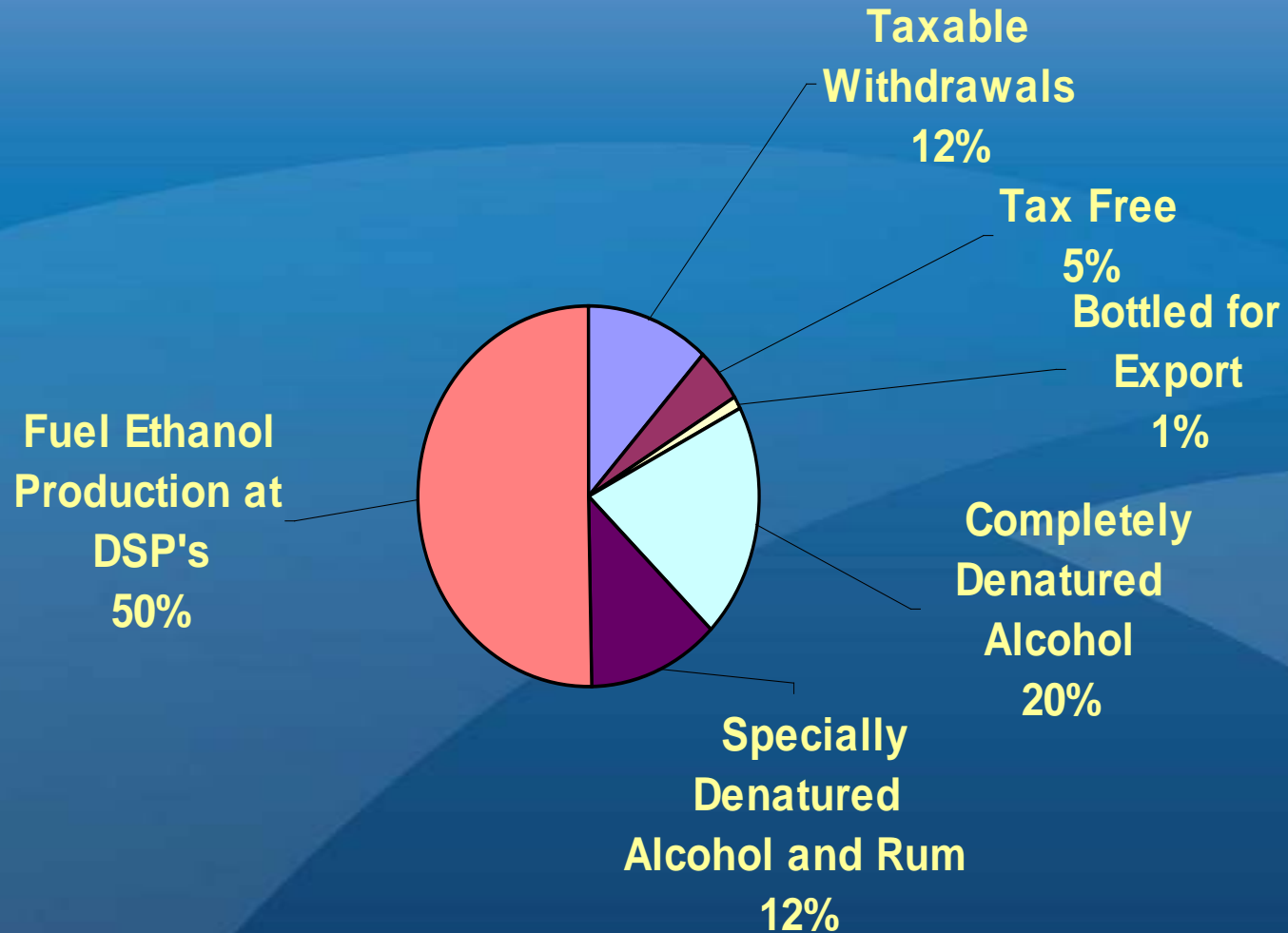
* Firearms and Ammunition Excise Tax

- Distilled Spirits is the top revenue producer on importations.
- For October 2008 – January 2009, Distilled Spirits accounted for 57.6% of import collections.

The Distilled Spirits Industry (Continued)

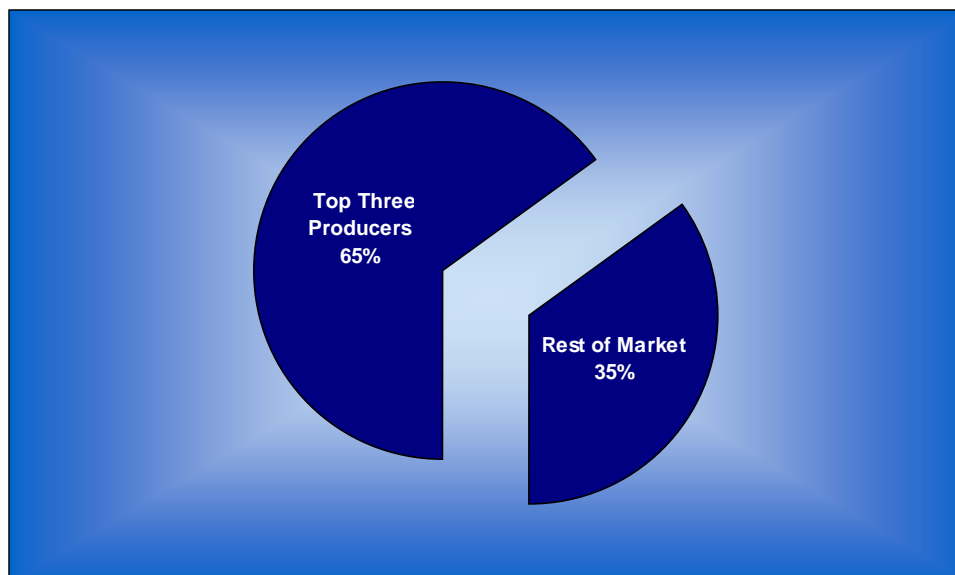
- Until 2009 the beverage distilled spirits industry had marked a total of 11 years of consecutive gains
- DISCUS estimates industry-wide volume growth of 2.8% for 2008, down from a nearly 6% increase in 2007
- Current tax receipts for the first quarter of FY 2009 show a decline in domestic excise tax collections of 2% and 5.3% imported bottled spirits, with an overall average decline of 3% .

Distilled Spirits Plants Alcohol Usage Calendar Year 2006



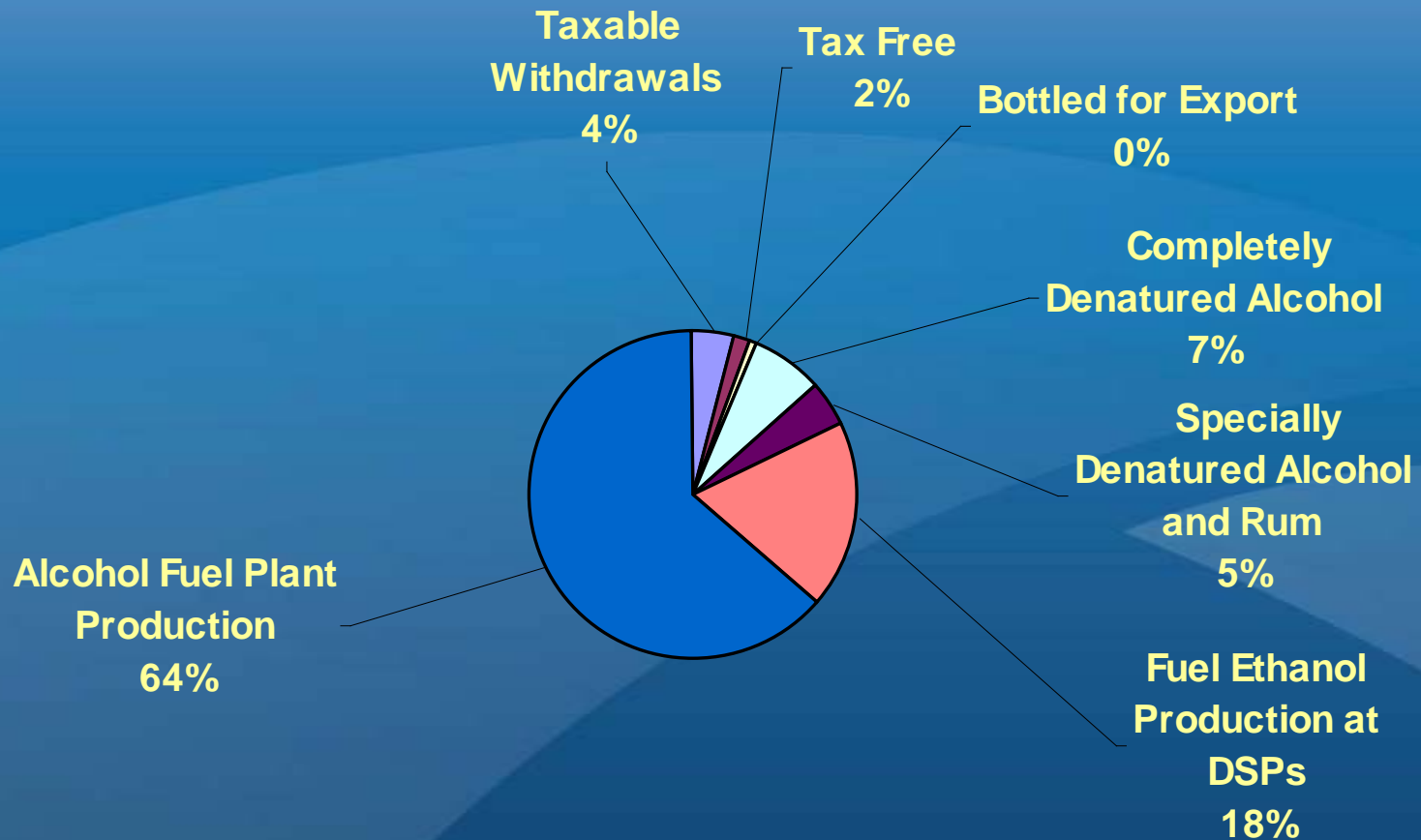
Nonbeverage Alcohol

- Ethanol consolidation:
 - After capacity under construction is completed, the top three U.S. ethanol producers will account for **35%** of future U.S. ethanol production

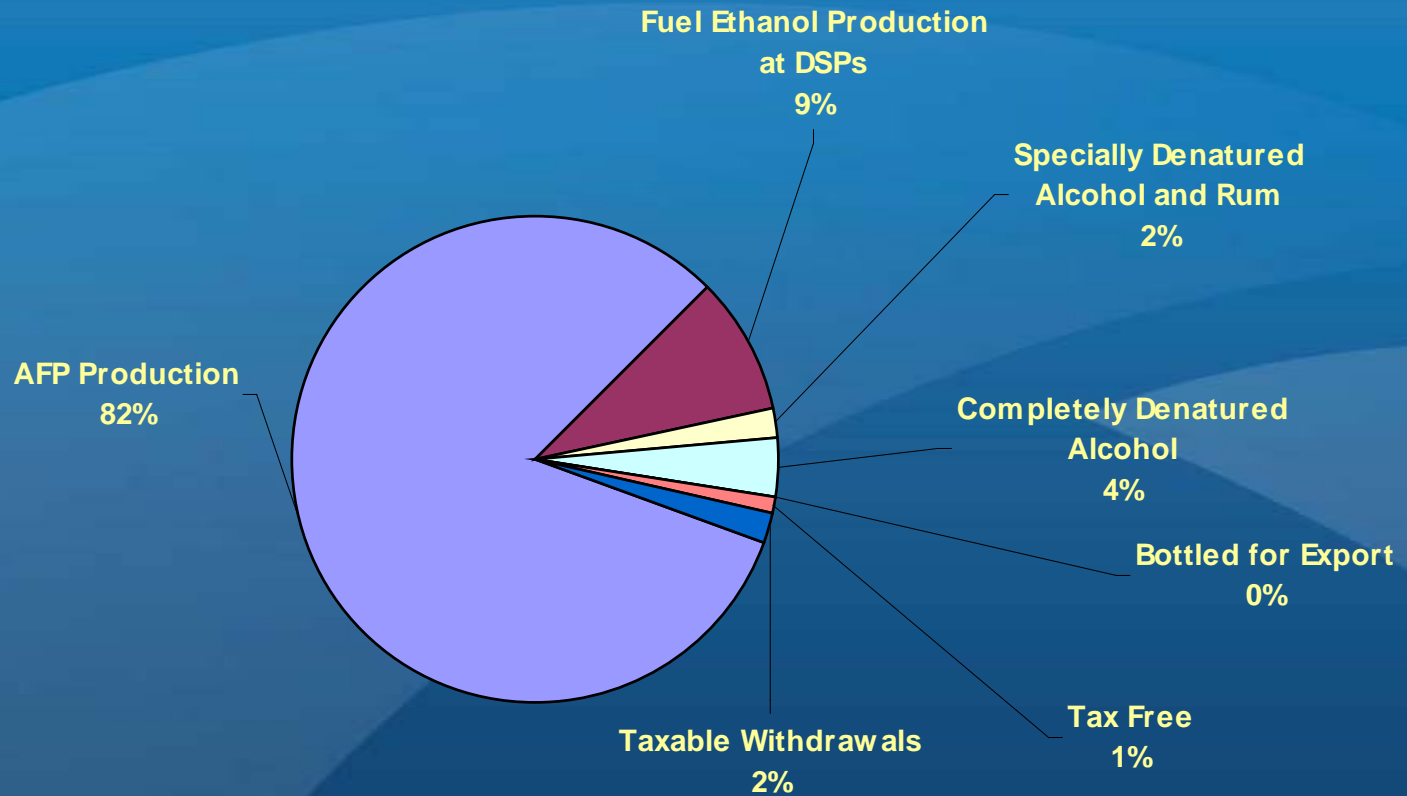


Source: American Coalition for Ethanol

Ethanol Production (2006)



Estimated Ethanol Production (2008)

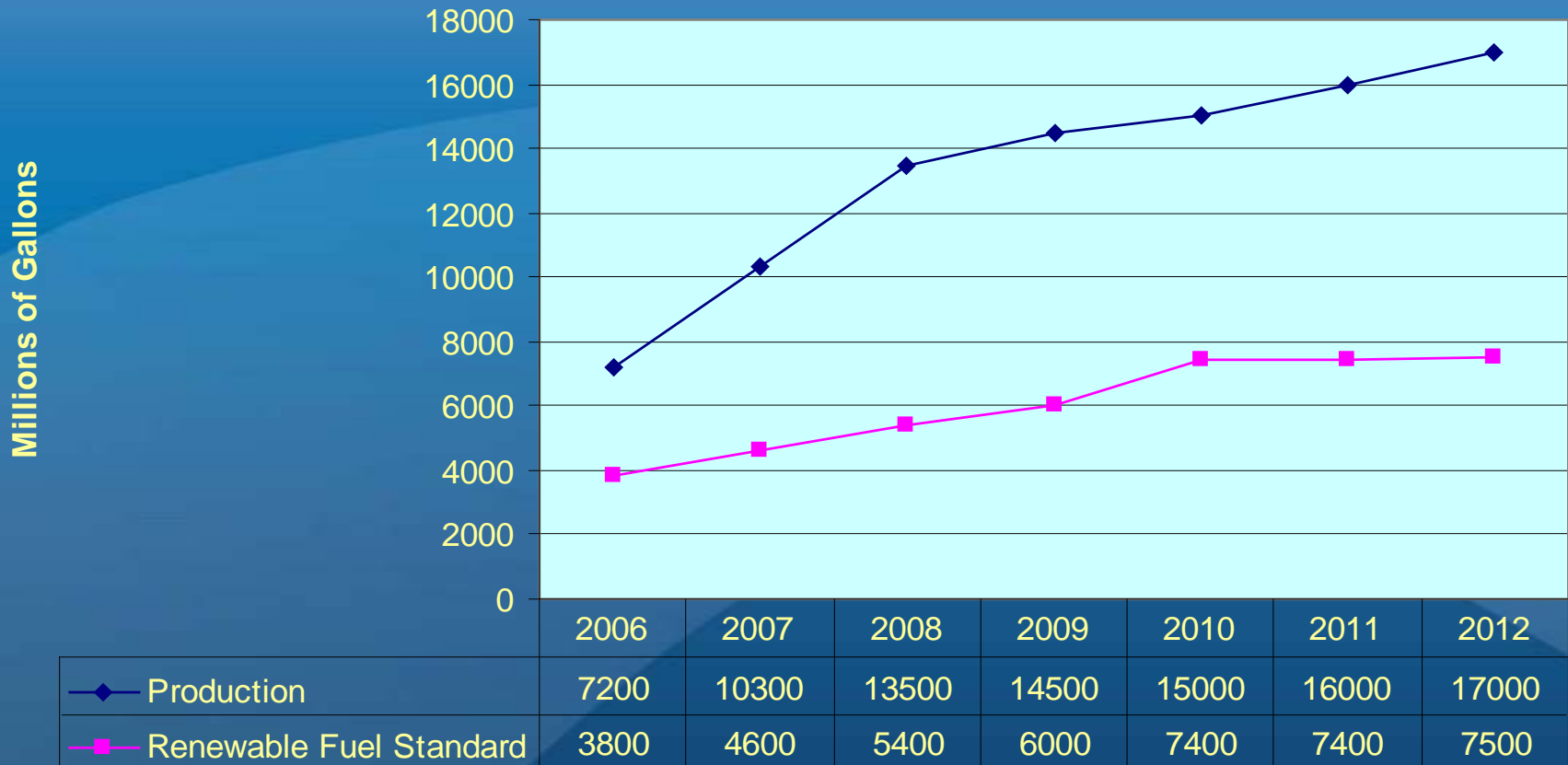


Production for calendar year 2008:

- Whiskey -5.0%
- Brandy -1.3%
- Alcohol +3.8%
- Total Production +3.2%

Possible Overproduction of Ethanol

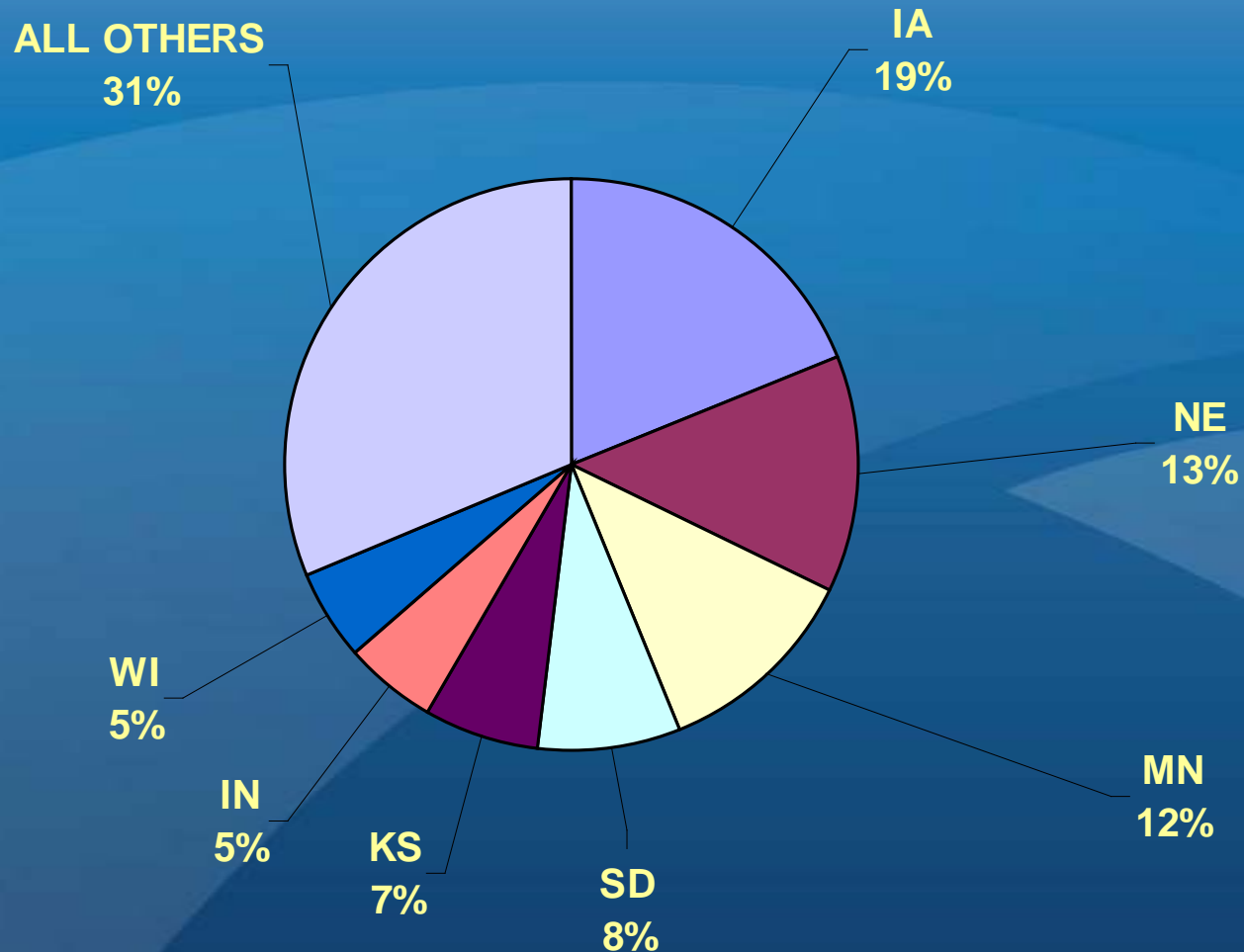
Comparison of Production to Required Consumption



Source: American Coalition for Ethanol Status Report 07

These figures are the limits solely with the use of corn; new advances in cellulosic ethanol could produce 60 billion gallons of ethanol by 2029.

Seven States Account for 69% of Large AFPs



(2007 data)



Compliance Concerns

- Alternating proprietors
- 5010 flavor tax credits:
 - TTB Expo session Friday afternoon
- Gauging
 - Accuracy
 - Frequency
- Reporting requirements

Industry Trends

- Beverage alcohol and the economy
- Alcohol fuel plants/ethanol
- Consolidation of manufacturers
- Debate on lowering minimum age for alcohol purchases

State and Local Taxes

- Increasing through much of the country

Annual Tax Revenues

Commodity	Federal	State	Local
Distilled Spirits	\$4.6 billion	\$5.7 billion	\$529 million
Beer	\$3.7 billion	\$5.4 billion	\$1.09 billion
Wine	\$877 million	\$1.6 billion	\$219 million

The Economy Today

- Alcohol is proving not to be a recession-proof product
- Consumers are switching to value brands and larger package sizes
- Bourbon is one of few exceptions

- One bright spot for 2008 was growth in exports
- U.S. exports in 2008 totaled \$1.1 billion:
 - Primary exported products are whiskies, including Bourbon and Tennessee Whisky
 - Growth in Australia (+24.3%), Canada (+21.2%), France (+15.9%), Germany (+8.9%)
 - Emerging markets grew as well

R&D Developments

- From 2000 on, 5th still column
- Molecular sieve column
- Extractor column
- Pressure column
- Efficiencies increased 15% on yields
- Fermentation process increased alcohol content to 14-16% ranges
- Heatless distillation process — 2 columns:
 - Beer still
 - Molecular sieve/membrane column
- Hydrolysis/cracking processes
- Cellulosic ethanol production

Other Trends

- Ethanol production is operating at capacity due to energy demands
- Capital investment in ethanol plants is entering a new stage as the number of AFP's under construction is slowing:
 - Farmers are planting capacity crops
 - Corn prices are stabilizing
- New emerging industry — the Craft Distiller



Contact Information

- Chris Thiemann
Regulations and Rulings Division, Distilled Spirits Program
 - **Phone:** (202) 453-2138
 - **E-mail:** Christopher.Thiemann@ttb.gov
- Dave Bateman
Distilled Spirits Industry Analyst
 - **Phone:** (202) 302-3859
 - **E-mail:** Dave.Bateman@ttb.gov
- Rob Crocker
Excise Tax Auditor
 - **Phone:** (513) 826-0245
 - **E-mail:** Robert.Crocker@ttb.gov